



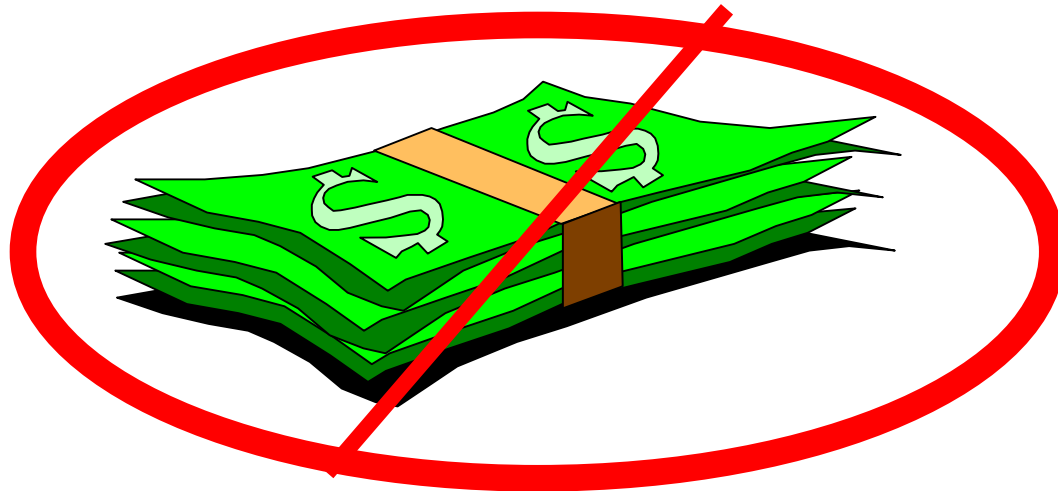
The
Survivor Benefit Plan
(SBP)

GOAL

CHANGE....
MISINFORMATION
BY
MISINFORMED
PEOPLE
INTO..... **INFORMATION**
BY
INFORMED PEOPLE



RETIRED PAY STOPS



WITH THE DEATH
OF THE RETIREE!

Average Number of Years Female Spouses Outlive Male Retirees

10% - 28 years

20% - 22 years

40% - 15 years

70% - 8 years



WHAT IS SBP?

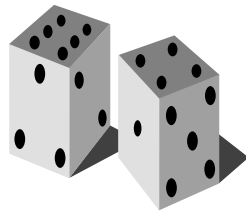


- Enacted by Congress in 1972
- Sole means for retiree to continue a portion of retired pay to survivors
- Coverage is free while on active duty
- Decision at retirement -- begin to share cost

Are You Risk Averse?

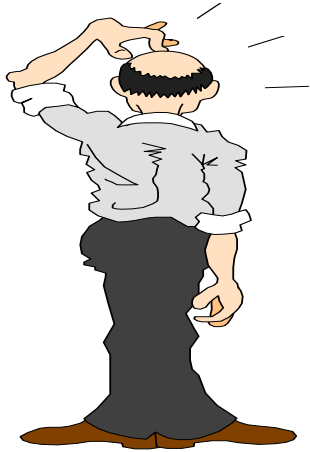
Weigh:

Higher risk of leaving
your loved ones with
insufficient income



Against:

Smaller risk that
your survivor may
not get back
every cent paid
in premiums

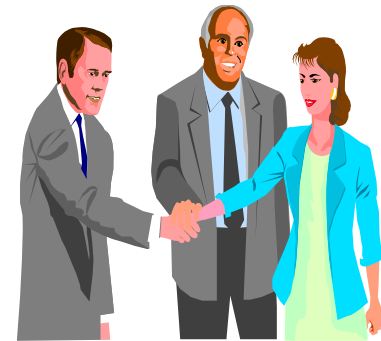


ABOUT ELECTIONS

- Must be made before retirement
- Certain elections need concurrence
- Generally irrevocable
 - may be cancelled with spouse concurrence between months 25-36 following retirement

A **“JOINT”** Decision For Married Soldiers Who

- Decline coverage
- Cover less than full retired pay
- Elect “child only”



Termination Feature

- **can terminate SBP after 2 years of ret.**
- **one-time, one-year window between 25th and 36th mo. after start of pay**
- **spouse concurrence required**
- **barred from future enrollment**
- **no refund of past premiums**
- **why the law change?**
 - acknowledges need for flexibility**

Six Election Options



- Spouse Only
- Spouse & Child(ren)
- Child(ren) Only
- Former Spouse Only
- FS & Child(ren)
- Insurable Interest

Spouse Option

- provides annuity of:
 - 55% (pre-62) of “base amount”
 - Currently 40% (post-62)
- effective **1 Apr 08**, post 62 35% annuity will be phased out and annuity for all spouses will be **55%**
- Post 62 annuity will be incrementally increased to 55%
 - 1 Apr 06, post 62 annuity increases to 45%
 - 1 Apr 07, post 62 annuity increases to 50%
 - 1 Apr 08, post 62 annuity increases to 55%
- annuity paid forever (unless remarriage occurs pre-55)
- if remarriage ends, annuity reinstated
- increased by annual COLA
- taxable as an annuity

Spouse & Child(ren) Option

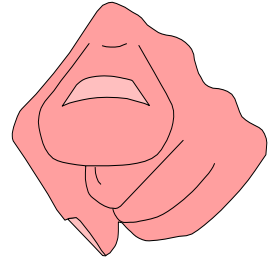
- spouse = primary beneficiary
- children receive annuity *only if* spouse can't (pre-55 remarriage or death) *and* they are still eligible
- child cost is based on ages of member, spouse & youngest child
- cost of child coverage - very low
- child cost stops when no elig. children remain

“Child(ren) Only” Option



- eligible until 18, or 22 if full-time, unmarried student
- unmarried incapacitated child - eligible forever (if condition was incurred pre-18 or 22)
- cost based on ages of member & youngest child
- all eligible children covered at one cost
- cost stops when no eligible children remain
- cheaper than “spouse” due to finite benefit
- costlier option than child when with spouse since child is primary beneficiary
- annuity divided equally among all eligible

Advice--Seriously Consider Child Coverage!



Q: Why bother to cover my 21-year old son who graduates from college soon?

A: Because....

- **incapacitation may occur while still eligible**
- **“closing” the child category when there are eligible children closes it forever**
- **family complete? perhaps a step-, grand-, foster- or natural child is in your future**

“Insurable Interest” Option

- **Who Can Elect:** unmarried Soldiers with no or one dependent child
- **Eligible Beneficiaries:** relative more closely related than cousin; or business associate w/financial interest in soldier (proof needed)
- **Base Amount:** Must be full retired pay
- **Cost:** 10% + 5% for each full 5 yrs younger beneficiary is than Soldier
- **Benefit:** 55% of retired pay *less* SBP cost
- **Disability Retirement:** Eff. 24 Nov 03, if retired for disability and death occurs within one yr of ret for a cause related to a disability for which retired, Insurable Interest election is invalid -- unless made for a dependent authorized a military ID card. Premiums paid will be refunded to designated beneficiary.
 - **Note:** Does not apply to length of service retirees.

“Insurable Interest”

Example

Retiree Age: 45

Beneficiary Age: 32

Retired Pay: \$1000

Cost: 20% of \$1000 = \$200

(i.e. 10% + 5% for each full 5 yrs
younger)

Annuity: \$440

(i.e. $\$1000 - \$200 = \$800 \times 55\%$)

*** Note: may cancel coverage at any time**

Former Spouse “Particulars”

- **FS coverage can be:**
 - purely voluntary
 - incorporated into a written agreement
 - court-ordered
- **Condition: FS must have been the formerly-covered spouse if divorce occurs after retirement**
- **Action Required Within 1 Year:**
 - By Retiree: provide DFAS-CL divorce decree plus *written request* to change coverage
 - By FS: provide DFAS-CL divorce decree plus *written request* for a deemed election

Former Spouse (cont'd)

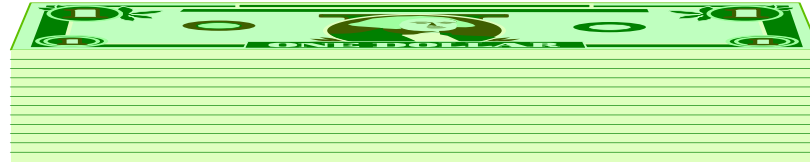
- Precludes “spouse” coverage forever*-- even if FS becomes ineligible through remarriage pre-55
- Payments are suspended when/if FS is ineligible but resume when/if eligibility is reinstated
- FS & Children: includes only children of the marriage to the FS (no subsequent children)

***FS coverage can be changed if court order is amended or vacated by FS's death.**

No Beneficiary at Retirement?

- **Keep SBP literature**
- **Keep “Echoes” -- RSOs’ ph. nos. listed**
- **Contact nearest RSO for a new briefing as soon as eligible beneficiary is gained**
- **Decision whether or not to enroll new family members MUST be made within one year of gaining them**
- **New spouse becomes eligible at 1-yr anniv. (costs do not begin until then)**

Base Amount



- amount of retired pay (in dollars) participation is based on
- minimum, by law = \$300
- maximum, by law = full retired pay
- may choose any \$\$ amount between

SBP Cost Formula

(Spouse Only)



Formula:

- 6.5% of base amount selected
- cost lowered in Mar '90

Examples:

▪ Base Amount:	\$1000	\$2000	\$3000
▪ Cost (6.5%)	\$ 65	\$ 130	\$ 195
▪ Annuity provided:	\$ 550	\$1100	\$1650



Sample SBP Costs



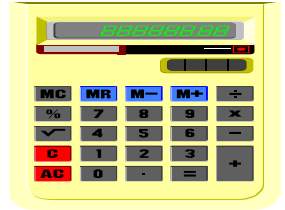
(Ages: Member=44; Spouse=41; Youngest Child=12)

Monthly Cost

Base Amount	Spouse Only	Spouse & Child	Child Only	Annuity Amount

\$4000	\$260	\$260.72	\$13.60	\$2200
\$3000	\$195	\$195.54	\$10.20	\$1650
\$2000	\$130	\$130.36	\$ 6.80	\$1100
\$1000	\$ 65	\$ 65.18	\$ 3.40	\$ 550

SBP's Real Cost



	<u>NO SBP</u>	<u>SBP</u>
Retired Pay	\$2,000	\$2,000
SBP Cost	\$ 0	\$ 130
Taxable Pay	\$2,000	\$1,870
Tax Paid (28%)	\$ 560	\$ 524
Annuity	\$ 0	\$1,100 (pre-62) \$ 700 (post-62)

*** This non-participant actual “pays” \$36/mo in the form of unrealized tax savings - survivor gets \$0.**

Can I Tailor SBP To Meet My Needs?

Yes....Think “Base Amount”

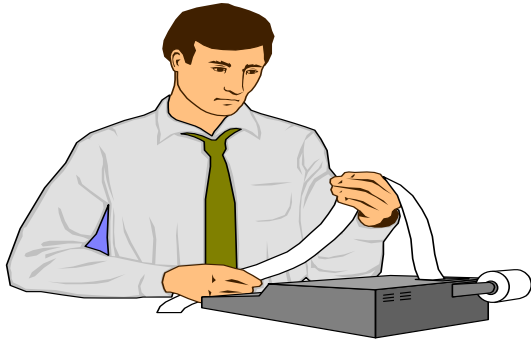
Challenge: What base amount should I cover to meet our needs?

Solution: Divide the goal amount by 55%.

Examples:

\$2000 annuity -- choose \$3636 as base

\$1000 annuity -- choose \$1818 as base



“Threshold” Amount

- **portion of base amount which costs 2.5%**
 - **only applies to Soldiers who entered service prior to 1 Mar 90**
- indexed annually to AD pay raise(s)**
- **\$635 (as of 1 Jan 06)**
- **instead of a \$300 base, cover \$635 at 2.5%**

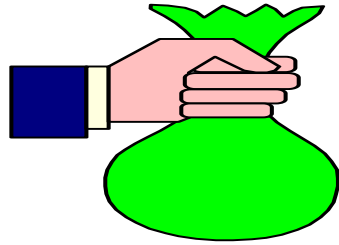
	<u>Base</u>	<u>Cost</u>	<u>Annuity</u>
Threshold	\$635	\$15.87	\$349
Minimum	\$300	\$ 7.50	\$165
Difference	\$335	\$ 8.37	\$184

“30-Year Paid-Up Provision”

- effective 1 Oct 2008
- no further cost (but annuity payable)
after...
 - 30 years of paying Premiums for a category of coverage and base amount...

AND

- reaching age 70



The Annuity

Amount:

- **Currently two-tiered**
 - 40% of base amount (post-62)
 - 55% of base amount (pre-62)
- **1 Oct 05 to 31 Mar 08**
 - incrementally increases over 3-1/2 years to 55%
- **1 Apr 08**
 - 55% of base amount

Life's Two Certainties?

Civilians: death & taxes

Retirees/Annuitants:

3--Can't outlive retired pay

4--Can't outlive SBP annuity

SBP POSITIVES

- **Government-subsidized plan**
- **Tax-free premiums**
- **Inflation-adjusted annuity**
- **Level-term plan (55%) as of 1 Apr 08**
- **Flexible: can terminate between ret years 2-3**
- **“Paid-up” after 30 years premiums + age 70**
- **Cannot outlive annuity**
- **Age, health, smoking, sex, lifestyle -- not considered**
- **Cost in today’s dollars; benefit in tomorrow’s dollars**
- **Can only be changed by Congress**
- **Income safety net; peace of mind**
- **Every active duty Soldier enrolled at no cost from day one**

SBP's “*Perceived*” NEGATIVES

- Annuity is taxed to survivor
- Premiums not returned if spouse dies first
- Retired pay reduced because of SBP costs
- Cost increases with COLA
- No inheritance provision
- No cash value; can't borrow against it
- Too complicated to understand

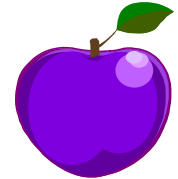
CONSIDER...

REFERENCE: LIFE INSURANCE

***“No other product in our economy
that is purchased by so many
people for so much money is
bought with so little
understanding of its actual or
comparative value.”***

(Source: USAA Magazine)

4 Main Points When Comparing SBP to Life Insurance



- It takes a surprising amount of insurance to do for the spouse what SBP will (based on averages).
- It will take a lot more insurance if the spouse outlives the retiree by the longest period of time.
- The amount of insurance needed over time rises due to inflation.
- Even though insurance may appear to be an inexpensive “alternative” *at retirement*, it’s harder to obtain & increasingly expensive as you age.

Replacement Value of Annuity

Pay Grade: O5

Ret Pay: \$5000

Member's Age: 43

Spouse's Age: 42

Annual After-Tax		Replacement
<u>Age at Death</u>	<u>SBP Annuity</u>	<u>Value of SBP*</u>
43	\$29,700	\$778,844
53	\$38,907	\$883,448
63	\$52,287	\$947,401
73	\$70,270	\$913,321

***Face value of insurance needed to equal SBP benefit.**

Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08

Replacement Value of Annuity

Pay Grade: E8

Ret. Pay: \$3000

Member's Age: 43

Spouse's Age: 42

	Annual After-Tax	Replacement
<u>Age at Death</u>	<u>SBP Benefit</u>	<u>Value of SBP*</u>
43	\$17,820	\$433,516
54	\$23,344	\$487,644
64	\$31,372	\$506,,232
74	\$42,162	\$473,925

***Face value of insurance needed to equal SBP benefit.**

Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08

Life Insurance Proceeds-- How Long Do They Last?



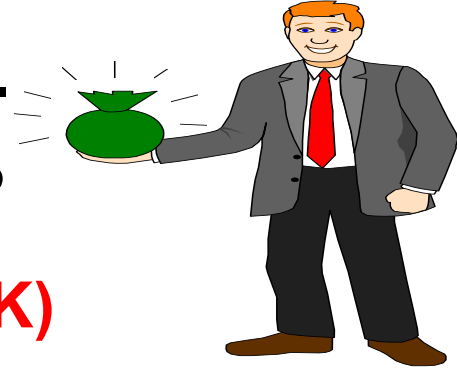
(Ret Pay = \$5000; Life Insurance = \$350K)

<i><u>Death</u></i> <i><u>Year</u></i>	<i><u>Spouse</u></i> <i><u>Age</u></i>	<i><u>Insurance</u></i> <i><u>Proceeds</u></i>	<i><u>After-Tax</u></i> <i><u>SBP Benefit</u></i>
2006	42	\$350,000	\$29,700
2008	44	\$323,741	\$31,635
2015	51	\$182,016	\$38,967
2020	56	\$ 2,986	\$45,104
2019	57	\$ 0	\$46,457

- Spouse's expected age at death **86**
- Years without insurance proceeds **30**

Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08

Life Insurance Proceeds-- How Long Do They Last?



(Ret Pay = \$3000; Life Insurance = \$250K)

<i><u>Death</u></i>	<i><u>Spouse</u></i>	<i><u>Insurance</u></i>	<i><u>After-Tax</u></i>
<i><u>Year</u></i>	<i><u>Age</u></i>	<i><u>Proceeds</u></i>	<i><u>SBP Benefit</u></i>
2006	42	\$250,000	\$17,891
2008	44	\$240,632	\$189,991
2016	52	\$163,277	\$24,044
2021	57	\$ 68,622	\$27,847
2023	60	\$ 0	\$30,459

- Spouse's expected age at death **82**
- Years without insurance proceeds **25**

Note: Does reflect recent legislation that increases the post age 62 annuity to 55% effective 1 Apr 08

You Be the Judge --

Who Was Responsible?

(Widow's letter of appeal to HQDA, 21 Sep 95)

“I think I should be able to receive my husband's Army pension to assist me in my everyday living expenses. He served this country for 20 years...in the Korean War & WWII. He was the recipient of the Purple Heart.If he were alive today he would still be receiving his pension. I feel it only right that his widow should receive the pension when a man serves his country as faithfully as my husband did...He served when he was called and I served right along beside. It is unjust to just push the spouse aside and make them feel they don't count. It makes no sense to me that it should be taken away.”

One Young Widow's View

(actual letter)

“....each day I thank my late husband for his taking SBP....it allows me to live with decency and independent of others....the utility bills have not changed with the loss of my husband....minor home repair and car maintenance now must be done by others and it becomes a major burden.... the loss of a partner impacts on the objectivity of spending money, especially for major items....the life insurance was only a supplement to SBP, because \$100,000 or even more will not last very long....”

SBP Endorsement

“We endorse SBP because we feel it is in the best interest of the retiree. We have examined SBP very carefully and concluded that SBP does what it is designed to do better -- and with less risk -- than any alternative we, or any other company could devise.”

(USAA)

DoD Actuary's Advice to Retiring Male Soldiers

“Male soldiers can’t go far wrong taking the maximum SBP. The situations for them where the threshold amount of SBP is not worth it are rare. The older you are, the more you want SBP. The younger your spouse is, the more you want SBP. The worse your health is, the more you want SBP.”

(Advice based on expected values, large amounts of statistics, and massive amounts of experience.)

DoD Actuary's Advice to Retiring Female Soldiers

“....I cannot, in good conscience, advise *all* female retirees that it is always a good financial decision to take maximum SBP. If you are approximately the same age as your husband, taking SBP is a relatively better choice than if you are 6 or 8 years younger. However, I think female retirees would be very foolish not to take the time and effort to find out what the valuation software advises in their particular case.”

HQDA's Advice To All Retiring Soldiers

**“Do not forfeit SBP
without having full
knowledge of what you
are giving up.”**

(Chief, Army Retirement Svcs)

For More SBP Information...

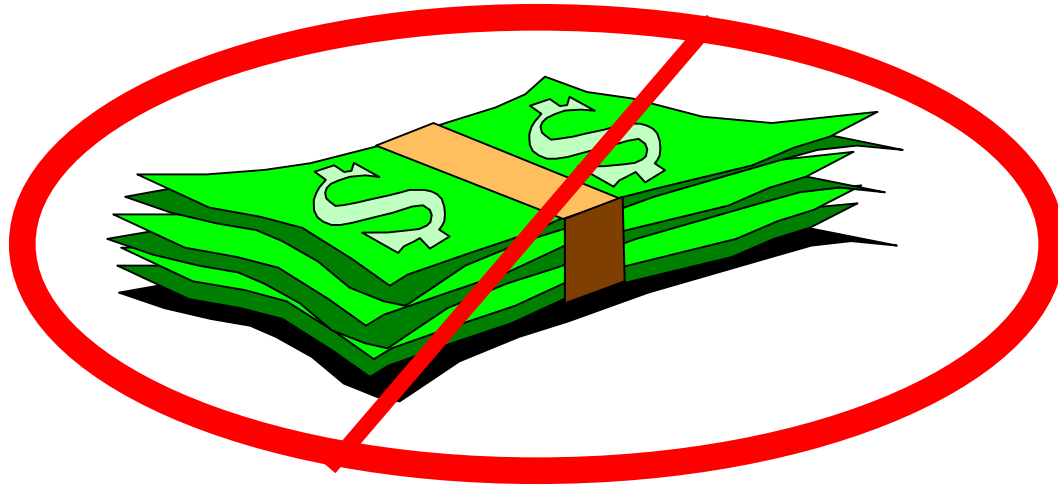
Log on to:

**[http://www.armyg1.
army.mil/retire](http://www.armyg1.army.mil/retire)**

Contact:

**your nearest Retirement
Services Officer (RSO)**

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WITH THE DEATH
OF THE RETIREE!